MULTIMEDIA UNIVERSITY

STUDENT ID NO.

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2021/ 2022 SESSION

PPE0044 – BASIC MICROECONOMICS

(Foundation in Business)

10 August 2022
9.00 A.M. – 11.00 A.M.
(2 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of **TEN (10)** pages.
2. Answer **ALL** the questions in **Sections A and B**.
3. Shade your answers for **Section A** on the OMR sheet. Write your answers for **Section B** in the Answer Booklet.

SECTION A : MULTIPLE-CHOICE QUESTIONS [40 MARKS]

Instructions: Answer **ALL** questions in this section. Shade your answers on the **OMR** sheet.

1. Economists use the concept of price elasticity of demand to measure _____.
   A. how much sellers respond to changes in the price of the good
   B. how much demand responds to changes in buyers' income
   C. how much buyers respond to changes in the price of the good
   D. how much worse off consumers are when the price of the good rises

2. Demand is said to be inelastic _____.
   A. if buyers respond substantially to changes in the price of the good
   B. if the price of the good responds only slightly to changes in demand
   C. if demand curve shifts only slightly when the price of the good changes
   D. if the quantity demanded changes only slightly when the price of the good changes

3. Supposed the price of good X is reduced from RM1.45 to RM1.25, as a result, the quantity of good X demanded increase from 2,000 to 2,200. Using the midpoint method, the price elasticity of demand for good X in the given price range is _____.
   A. 2.00
   B. 1.55
   C. 1.00
   D. 0.64

4. With regards to question no. 3, what can you say about the degree of elasticity in that price range?
   A. Elastic
   B. Inelastic
   C. Unit elastic
   D. Perfectly elastic

5. The Hi-Tech Computer Company wants to increase the quantity of computers it sells by 5%. If the price elasticity of demand is 2.5, the company must _____.
   A. increase price by 2.0%
   B. reduce price by 2.0%
   C. increase price by 0.5%
   D. reduce price by 0.5%

6. Jenny is very concern for her health, hence her demand for health care would tend to be _____.
   A. elastic
   B. inelastic
   C. horizontal
   D. unit elastic

Continued...

7. The Advanced Computer Company spends a lot of money for advertising meant to convince you that their personal computers are superior to all other personal computers. If the Advanced Computer Company is successful, the demand for Advanced personal computers _____.
   A. and the demand for other firms' personal computers will become less price elastic
   B. and the demand for other firms' personal computers will become more price elastic
   C. will become more price elastic, but the demand for other firms' personal computers will become less price elastic
   D. will become less price elastic, but the demand for other firms' personal computers will become more price elastic

8. Demand determines _____ entirely when _____ is perfectly inelastic.
   A. price; supply
   B. quantity; supply
   C. price and quantity; supply
   D. price and quantity; demand

9. When the price of tea decreases by 7%, quantity demanded increases by 12%. The demand for tea is _____ and total revenue from tea sales will _____.
   A. elastic; increase
   B. elastic; decrease
   C. inelastic; increase
   D. inelastic; decrease

10. At a price of RM11, quantity demanded is 90; and at a price of RM9, quantity demanded is 110. Since total revenue _____ by the price decrease, demand must be _____.
   A. is increased; elastic
   B. is unchanged; elastic
   C. is decreased; inelastic
   D. is unchanged; unit elastic

11. The local bakery makes such great bread sticks that consumers do not respond much to a change in the price. If the owner is only interested in increasing revenue, he should _____.
   A. reduce costs
   B. raise the price of the bread sticks
   C. lower the price of the bread sticks
   D. leave the price of the bread sticks unchanged

12. Luxury items tend to have _____ demand, and necessities tend to have _____ demand.
   A. relatively elastic; inelastic
   B. relatively inelastic; elastic
   C. unit elastic; perfectly inelastic
   D. perfectly elastic; perfectly inelastic

Continued...

13. The cross elasticity of demand between good X and good Y is 0.5. Given this information, which of the following statements is **TRUE**?
    A. Goods X and Y are substitutes.
    B. Goods X and Y are complements.
    C. The demand for goods X and Y is inelastic.
    D. The demand for goods X and Y is income inelastic.

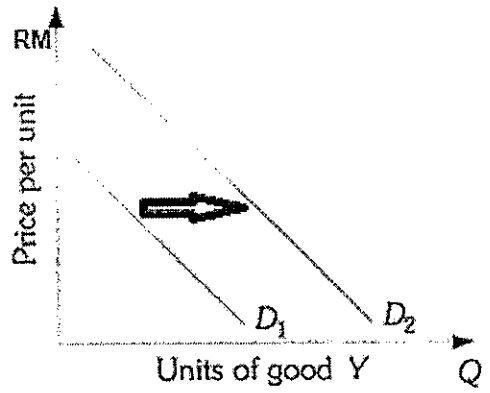

Exhibit 1

14. Refer to **Exhibit 1**. As the price of good W increased, the demand for good Y shifted from D_1 to D_2. The cross elasticity of demand between W and Y is _____.
    A. zero
    B. positive
    C. negative
    D. indeterminate from this information

15. The income elasticity of demand for vacations is 5. If income increase by 3 percent, the quantity of vacations demanded will increase by _____ percent.
    A. 3
    B. 5
    C. 15
    D. 5/3

16. The income elasticity of demand for education is 3.5. Thus, a 4% increase in income will _____.
    A. decrease the quantity of education demanded by 14%
    B. increase the quantity of education demanded by 4%
    C. increase the quantity of education demanded by 14%
    D. decrease the quantity of education demanded by 3.5%

Continued...

17. Supply is elastic if _____.
    A. the good in question is a normal good
    B. the slope of the supply curve is positive
    C. a 1 percent change in price leads to a larger percentage change in quantity supplied
    D. a 1 percent change in price leads to a smaller percentage change in quantity supplied

18. A rise in the price of cabbage from RM14 to RM18 per bushel, caused by a shift of the demand curve, increases the quantity supplied from 4,000 to 6,000 bushels. The price elasticity of supply for cabbage is _____.
    A. 0.6
    B. 0.8
    C. 1.0
    D. 1.6

19. If a good is produced using inputs for which there are no substitutes, the _____.
    A. price elasticity of demand for the good will be small
    B. price elasticity of demand for the good will be large
    C. price elasticity of supply for the good is likely to be large
    D. price elasticity of supply for the good is likely to be small

20. When tax is imposed on a market with elastic demand and inelastic supply, _____.
    A. sellers will bear most of the burden of the tax
    B. buyers will bear most of the burden of the tax
    C. it is impossible to determine how the burden of the tax will be shared
    D. the burden of the tax will be shared equally between buyers and sellers

21. The length of the short run _____.
    A. can never exceed 1 year
    B. can never exceed 3 years
    C. is always less than 6 months
    D. is different for different types of firms

22. In economics, the short run is the time frame in which the quantities of _____ and the long run is the period of time in which _____.
    A. all resources are variable, the quantities of all resources are fixed
    B. all resources are fixed; the quantities of all resources can be varied
    C. some resources are variable; the quantities of all resources are fixed
    D. some resources are fixed; the quantities of all resources can be varied

23. Marginal cost tells us _____.
    A. the value of all resources used in a production process
    B. the amount fixed cost rises when output rises by one unit
    C. the amount total cost rises when output rises by one unit
    D. the marginal increment to profitability when price is constant

Continued...

24. Which of the following is an implicit cost?
    (i) A business owner forgoing an opportunity to earn a large salary working for a stock brokerage firm.
    (ii) Interest on bank loan
    (iii) Uncollected revenue.

    A. (i) only
    B. (ii) and (iii)
    C. (i) and (iii)
    D. None of the above

25. Average total cost is very high when a small amount of output is produced because _____.
    A. average fixed cost is large
    B. of diminishing marginal product
    C. variable costs are spread over only a few units of output
    D. all of the above

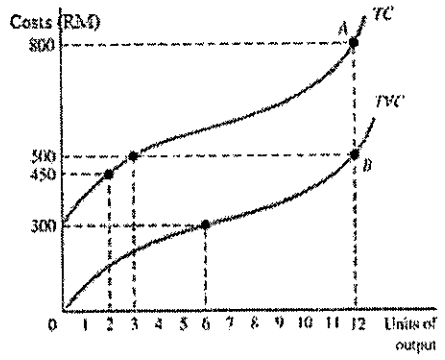

Exhibit 2

26. Refer to **Exhibit 2.** The average fixed costs of producing two units of output are _____.
    A. RM150
    B. RM300
    C. RM450
    D. indeterminate from this information

27. The marginal cost curve crosses the average total cost curve at _____.
    A. the efficient scale
    B. economies of scale
    C. diseconomies of scale
    D. the maximum point of ATC curve

Continued...

28. You observe that at your current production of muffin, the average cost of producing muffin is RM1 and the marginal cost of producing muffin is RM2. What should happen if you increase muffin production?
    A. Marginal cost will rise
    B. Marginal cost will fall
    C. Average total cost will rise
    D. Average total cost will fall

29. Economies of scale arise when _____.
    A. individuals in a society are self-sufficient
    B. an economy is self-sufficient in production
    C. fixed costs are large relative to variable costs
    D. workers are able to specialise in a particular task

30. If all resources used in the production of a product are increased by 20 percent and output increases by 20 percent, then there must be _____.
    A. economies of scale
    B. diseconomies of scale
    C. constant returns to scale
    D. increasing average total costs

31. Which of the following is **TRUE**?
    A. Income effect for normal good is positive
    B. Substitution effect for normal good is positive
    C. Substitution effect and income effect for normal good is negative
    D. Substitution effect and income effect for inferior good are negative

32. An indifference curve shows _____.
    A. two bundles of two goods each where one bundle is preferred to the other
    B. the bundles of two goods that give an individual equal amount of satisfaction
    C. two bundles of two goods each where one bundle gives greater satisfaction to an individual than the other bundle
    D. none of the above

33. If a firm shuts down in the short run, then _____.
    A. its economic profits are zero
    B. its losses are equal to its fixed costs
    C. it must be the case that its revenues from operating were less than its total costs
    D. None of the above

34. The Freeze Ice Cream Company is a perfectly competitive firm producing where MR = MC. The current market price of an ice cream sandwich is RM5.00. Freeze sells 200 ice cream sandwiches. Its AVC is RM8.00 and its AFC is RM3.00. What should Freeze do?
    A. Decrease production so that AVC will decrease.
    B. Increase production so that AFC will decrease.
    C. Continue to produce because price exceeds AFC.
    D. Shut down and produce zero sandwich because price is less than AVC.

Continued...

35. For a monopolist to sell more units of output, _____.
    A. the price must be reduced
    B. the price must be increased
    C. demand must become more elastic
    D. the other competing firms must sell fewer units

36. The Rare Bird Company has a monopoly in the sale of birdnest. When the Rare Bird Company sells 3kg of birdnest, its marginal revenue is RM30. When the Rare Bird Company sells 4kg of birdnest, its marginal revenue will be _____.
    A. less than RM30
    B. equal to RM30
    C. greater than RM30
    D. greater than RM30 if demand is elastic and less than RM30 if demand is inelastic

37. The XYZ Computer Company has a monopoly over the production of a specialised colour printer. The XYZ Computer Company will find it profitable to increase the production of specialised colour printers as long as marginal cost _____.
    A. is positive
    B. equals marginal revenue
    C. is less than marginal revenue
    D. is greater than marginal revenue

38. Monopolistically competitive firms have _____ market power because they are producing differentiated products.
    A. no
    B. some
    C. complete
    D. unlimited

39. As new firms enter a monopolistically competitive industry, the _____ curve facing each existing firm will shift to the left and become more elastic because there are now _____ substitutes for its product.
    A. supply; less
    B. supply; more
    C. demand; less
    D. demand; more

40. A characteristic found only in oligopoly is _____.
    A. interdependence of firms
    B. barriers of entry into the industry
    C. its products are slightly differentiated
    D. it faces a downward sloping demand curve

Continued...

SECTION B : STRUCTURED QUESTIONS [60 MARKS]

Instructions: Answer **ALL** questions in this section. Write your answers in the answer booklet provided.

Question 1

Part A

Exhibit 3 depicts the total output produced by Awesome Enterprise.

No. of workers	Units of output
0	0
1	20
2	80
3	120
4	150
5	160

Exhibit 3

Based on **Exhibit 3**, answer the following questions:

a) Calculate the marginal product of each labour input.

(2.5 marks)

b) At which level of workers did the firm experience increasing marginal returns? How do you know?

(2 marks)

c) When did the diminishing marginal returns set it? How do you know?

(2 marks)

d) When the firm started to experience diminishing marginal returns, what can you say about the marginal cost?

(2 marks)

Part B

Exhibit 4 depicts some cost information about Delicious Pies Enterprise.

Output (pies)	Total variable cost (RM)	Total cost (RM)	Marginal cost (RM)
0	0	300	
100	400		
200	1,000		
300	1,800		
400	2,800		

Exhibit 4

Based on **Exhibit 4**, answer the following questions:

a) Calculate the total fixed cost of producing 100 pies.

(2 marks)

b) Calculate the total cost and marginal cost for all levels of output.

(4 marks)

Continued...

c) Based on the marginal cost obtained, does it illustrate increasing marginal returns or diminishing marginal returns? Why?

(2 marks)

Part C

Determine whether the following statement is **TRUE** or **FALSE** and explain your answer.

If marginal cost curve is lying between average variable cost curve and average total cost curve, then both average variable cost and average total cost are increasing.

(3.5 marks)

[TOTAL 20 MARKS]

Question 2

Part A

Exhibit 5 shows Amy's total utility (TU) and marginal utility (MU) derived from the consumption of burger and milk tea. Amy has RM12 to spend on these goods. The price of a burger is RM3 and the price of a cup of milk tea is RM1.50.

Burgers				Milk tea			
Qty (unit)	TU	MU	$\frac{MU}{P}$	Qty (cups)	TU	MU	$\frac{MU}{P}$
0	0	-		0	0	-	
1	126	126		1	54	54	
2	243	117		2	103.5	49.5	
3	342	99		3	145.5	42	
4	426	84		4	177	31.5	
5	501	75		5	196.5	19.5	

Exhibit 5

Based on the information given, answer the following questions.

a) Calculate the marginal utility per ringgit (MU/P) spent on burger and milk tea.

(5 marks)

b) What is the combination of burgers and milk tea should Amy consume to maximise her total utility? Show your working.

(3 marks)

c) If the price of a burger increased, what should Amy do to her consumption bundle in order to be in equilibrium?

(2 marks)

Part B

Chloe has RM12 per day to spend on breakfast. She spends all of RM12 on bagel and coffee. The price of bagel is RM4.00 each and coffee costs RM2 per cup.

a) Calculate Chloe's real income in terms of bagels and coffee.

(2 marks)

Continued...

b) Sketch Chloe's budget constraint and label it as BC_0. Put bagel on the horizontal axis and coffee on the vertical axis.

(2 marks)

c) In equilibrium, Chloe buys 2 bagels and 2 cups of coffee. Draw an indifference curve (IC_0) to show the consumer equilibrium point (E) on the budget constraint that you have sketched in part (b).

(2 marks)

d) Calculate the slope of the budget line.

(2 marks)

e) If the price of bagel falls to RM2 each, how would this affect the slope of the budget line? Will it become flatter or steeper. Show your calculations.

(2 marks)

[TOTAL 20 MARKS]

Question 3

Exhibit 6 depicts the total cost (TC) and total revenue (TR) schedule for Caring Enterprise. It is operating in a perfectly competitive market. The products are sold at RM10 each.

Quantity (units)	TC (RM)	TR (RM)	Profit	MR	MC
0	12	0			
1	22	10			
2	28	20			
3	30	30			
4	31	40			
5	35	50			
6	45	60			
7	59	70			
8	80	80			

Exhibit 6

Based on the information provided, answer the following questions:

a) Calculate the profit, Marginal revenue (MR), and Marginal cost (MC) for all levels of output.

(9 marks)

b) Using marginal approach, determine the profit-maximising level of output. Explain your answer.

(1.5 marks)

c) At the profit-maximising level of output, calculate the profit/loss of the firm.

(2 marks)

d) Explain why a perfect competitive firm earns normal profit in the long run.

(4.5 marks)

e) Assuming that Caring Enterprise and other firms in the same industry has been taken over by a single giant company recently. What change do you see in terms of the market structure? List 2 of the characteristics of the new market structure.

(3 marks)

[TOTAL 20 MARKS]

End of Paper